Financial Innovation for Impact – Written Evidence (RSB0015)

Written evidence on regulatory sandboxes in financial services

Financial Innovation for Impact

House of Lords Financial Services Regulation Committee

Introduction

1. Financial Innovation for Impact (Fii) is an international not-for-profit organisation supporting regulatory, supervisory and infrastructure innovation, particularly in developing economies, through research, technical assistance, training and capacity building. Its work includes supporting financial authorities in strengthening their approaches to financial innovation, including regulatory sandboxes, innovation offices and related initiatives. Fii's team brings together researchers and former regulators, including from the UK Financial Conduct Authority (FCA). Its advice on regulatory innovation draws on international research and practical experience, including the UK's influential approach. This submission provides reflections from Fii's work with regulators around the world and also draws on public sources of good practice.
2. Regulatory sandboxes can be highly effective where controlled testing is necessary to resolve a material regulatory uncertainty or assess an innovation's benefits and risks. Their effectiveness depends on clear objectives, appropriate powers, capable supervision, credible routes to market following testing, and the ability to use sandbox tests to inform wider regulatory and policy reform. However, sandboxes can be costly to run and may not be the most effective response, particularly where live testing is not able to inform wider regulatory or policy development. Innovation offices, guidance and targeted regulatory adjustments can potentially address many firms' needs with fewer resources.

Question 4

Do regulatory sandboxes provide wider public benefit and value for money, compared with other forms of regulatory and market engagement?

3. Sandboxes can provide wider public benefit when they resolve material regulatory uncertainties, test consumer safeguards under realistic conditions, or produce evidence that improves regulation for an entire market. They can also provide public benefit in accelerating the route to market for an individual firm that successfully exits the sandbox to provide a beneficial product or service to consumers (for example, a lower cost product, or increasing provision in an underserved market). Their justification is strongest where ordinary engagement cannot

establish how a novel activity will operate, and where a bounded live experiment can explore and answer specific questions without exposing consumers or markets to disproportionate harm.

4. Sandboxes can be costly to set up and run. Establishing a sandbox typically requires legal analysis, extensive operating model design work, and staff training. Operating a sandbox generally requires specialist expertise from across the regulatory authority, extensive liaison with the firm being supported to agree a suitable live test, ongoing supervision of the test, and support in how firms exit the sandbox at the end of testing. A CGAP-World Bank survey documents substantial variation in resources committed to sandboxes, ranging from one to 25 full-time employees and financial resources from US$25,000 to over US$1 million[1]. There is also a considerable resource impact on firms themselves, from submitting applications, developing sandbox testing plans, reporting during the testing phase, and ensuring continued compliance with regulatory requirements.
5. Given this, before establishing a sandbox regulators should clearly identify market demand, the legal tools available and the additional evidence that live testing would produce. A weak pipeline of suitable propositions, or a problem resolvable through clarification may favour another intervention, such as an innovation office.
6. Innovation offices generally provide a dedicated contact point, supported by legal, policy and supervisory specialists, to help firms understand the regulatory perimeter and authorisation requirements, identify recurring uncertainties and give regulators early intelligence about emerging business models. World Bank research finds that such arrangements can be less resource intensive and can complement regulatory sandboxes[2].
7. Regulators should also consider other regulatory innovation initiatives, such as innovation challenges, TechSprints and other collaborative exercises, targeted supervisory engagement, and proportionate changes to rules or authorisation processes in response to innovation, with sandbox testing focussing on those areas where live testing will help resolve regulatory uncertainty.

[1] CGAP–World Bank survey findings
[2] World Bank, innovation hubs analysis

Question 8

What role should regulatory sandboxes play in informing the development of regulation, particularly for emerging technologies?

a) How effectively do regulators learn from regulatory sandboxes? To what extent are learnings from regulatory sandboxes shared or used more widely?

8. Regulatory learning should be an explicit purpose of testing. Each sandbox test should identify the uncertainty to be investigated, the evidence needed and the team responsible for considering its implications.
9. Learning requires institutional arrangements. Internal policy, authorisation, supervision, enforcement and relevant technical specialists at a regulatory authority should contribute to test design and review. It is helpful to document a process linking each test's findings to a decision, for example issuing guidance, investigate a possible rule change, improve supervision, undertake further work, or retain existing requirements.
10. International evidence shows that this process cannot be assumed. Australia's 2026 independent review found weak integration between its Enhanced Regulatory Sandbox and licensing and supervision, and limited evidence of formal information-sharing processes[3].
11. Regulators should be encouraged to publish thematic findings while protecting confidential information. This may include the business model and regulatory question being tested, relevant safeguards, and resulting action. Regulatory authorities should also be encouraged to make any regulatory clarifications available to non-sandbox participants. This helps prevent privileged access to regulatory interpretations from becoming a competitive advantage. Shared findings should also be accessible to other domestic authorities and relevant international networks.

Question 9

How effectively do regulatory sandboxes manage risks to consumers and markets, and what safeguards and accountability arrangements are in place?

12. Regulatory sandboxes can be effective in managing risks to consumers and markets. Typically, live sandbox tests can only begin once a testing plan has been agreed between the regulatory authority and the firm. This testing plan usually includes core limitations and constraints that the firm must comply with during testing – for example, defining the number and types of customer that a firm can test on, and the total number and amount of transactions that a firm can undertake. Testing

[3] Australian review, findings 3.5–3.6

plans generally identify the key risks to consumers during testing, and how these will be mitigated, and how consumers will be protected. Relevant protections include informed participation, clear disclosures, safeguarding of money and data, accessible complaints procedures and arrangements to compensate losses where appropriate. Testing plans also typically ensure there are resources available to remedy harm and wind down safely if concerns emerge during testing.

13. Many sandboxes issue regulatory reliefs (such as rule waivers or modifications) that can reduce or disapply standard requirements for the duration of testing. Some regulatory authorities publish what regulatory requirements may be relaxed for a sandbox test, and which requirements must be maintained at all times (for example, safeguarding customer assets, and anti-money laundering controls[4]). In general, regulatory sandboxes are not de-regulatory initiatives, and requirements for conducting a particular activity in the sandbox are the same as those that apply outside the sandbox, except when explicitly dis-applied, altered or modified in the context of a specific test.
14. Alongside these safeguards, sandbox tests are typically supervised and overseen closely by a regulatory authority, and firms are required to report regularly during testing. Close oversight and supervision is an important safeguard to ensure any issues are dealt with promptly, and to enable the regulatory authority to suspend or terminate testing if significant consumer protection issues emerge.

Question 11

How does the UK's use of regulatory sandboxes in financial services compare with approaches in other jurisdictions and sectors?

15. The FCA pioneered regulatory sandboxes in financial services, establishing an approach that has influenced regulators internationally. Other jurisdictions have since adapted and developed that model, offering fresh perspectives on how regulation can support innovation while protecting consumers and markets. Continued effectiveness depends on a willingness to question established approaches and learn from developments elsewhere. International experience can reveal both opportunities for improvement and practical challenges in sandbox design and operation, helping UK authorities respond to changing technologies, business models, and market needs.
16. Fii therefore encourages the FCA and other UK authorities to place continued international exchange as a means of strengthening the UK's approach to regulatory innovation. Experience across advanced, emerging and developing economies offers practical lessons on proportionality, co-ordination, regulatory learning and pathways beyond testing, including when alternatives to sandboxes may be more effective.

[4] MAS guidelines, Annex A.

Applying relevant lessons to the UK can improve regulatory outcomes and public benefit while sustaining its international leadership. Some examples of different approaches to regulatory sandboxes are provided below.

Singapore

17. The Monetary Authority of Singapore (MAS) offers both tailored sandbox testing and a standardised route for activities whose risks are better understood. Its original sandbox accepts applications throughout the year and tailors regulatory support, testing conditions and safeguards to each proposal, broadly resembling the FCA's approach.
18. Sandbox Express, introduced in 2019, addresses the cost and delay of negotiating every test individually. It uses predetermined conditions for activities whose risks are sufficiently understood and containable. MAS endeavours to assess a complete application within 21 days, while retaining the ability to redirect complex cases to the bespoke route. The scope of activities that can apply is narrow, currently covering insurance broking and establishing or operating an organised market.
19. Sandbox Plus, introduced in January 2022, combines regulatory support with potential grant and investor-access arrangements for certain 'early technology adopters' and 'first movers'. This aims to support the commercial sustainability of successful firms, together with providing regulatory support that is more typically provided by sandboxes.
20. There are potential lessons for the UK here to fast-track comparable tests through standard parameters, while retaining bespoke assessments for unfamiliar risks. Considering what wider support could be provided to firms to support growth and scaling may also be beneficial, in addition to the regulatory guidance and support typically provided by sandboxes.

Pakistan

21. The State Bank of Pakistan (SBP) launched its sandbox framework in 2025. This is an example of a 'policy sandbox', where specific areas of focus are identified for each cohort to address specific policy problems or areas where sandbox tests can inform the development of regulation. For the first cohort, SBP focussed on supporting tests for inward remittances, open banking, and remote merchant onboarding. In September 2026, SBP reported that four participants had successfully demonstrated solutions following testing during January-June, while emphasising that commercial launch required separate approval.
22. It is important there are clear exit pathways following a successful sandbox test. This can be challenging where no regulatory framework exists for a particular activity. SBP seek to address this by a 'No Objection Letter', which may be issued after a successful testing where an appropriate regulatory framework is not yet in place, allowing the firm to continue to operate while regulations are being developed. As

part of the sandbox, SBP also offer expert advice from industry experts and regulators, workshops and training, and networking opportunities to sandbox participants.

23. Setting clear policy priorities can have a catalysing impact on the market, encouraging demand to address known regulatory challenges or areas where regulatory frameworks need to be developed - sandbox testing can help explore the real-world implications to inform regulatory approaches.

Hong Kong

24. Co-ordination between regulatory authorities is important where sandbox tests may straddle different regulatory remits. The Hong Kong Monetary Authority (HKMA), Securities and Futures Commission (SFC), and Insurance Authority (IA) each have their own regulatory sandbox. If a firm intends to conduct a test of a cross-sector fintech product, it may apply to seek access to the sandbox it considers most relevant. That regulator will then act as the primary point of contact and co-ordinate with the other relevant regulators for the firm to access the sandboxes concurrently.
25. This approach could reduce firms' navigation costs, limit duplicated information requests and identify regulatory dependencies earlier. It also creates opportunities for authorities to agree coherent testing conditions and share regulatory learning. Similar co-ordination mechanisms could be explored between sandboxes in the UK.

Australia

26. Australia's experience demonstrates the importance of connecting sandbox testing to authorisation, supervision and regulatory learnings. Its Enhanced Regulatory Sandbox allows eligible firms to test specified financial services and credit activities under a temporary licensing exemption, subject to safeguards. However, the independent review published in July 2026 found that, although participants benefited from testing opportunities, the framework generally did not accelerate licensing and identified challenges in terms of the pathway from testing to licensing, and the transfer of insights into regulatory practice. In September 2026, the Australian Government agreed to pursue replacement of the statutory framework with a more flexible model using ASIC's existing relief powers.
27. This reinforces arguments made previously and supports further strengthening the connections between existing innovation services and mainstream regulatory functions. Sandbox testing is most valuable when it addresses explicit regulatory learning questions, with responsibility assigned for considering implications for guidance, supervision or policy. Australia's willingness to review and redesign its framework reinforces the value of periodically assessing whether a sandbox remains suited to

its objectives and whether alternative mechanisms could achieve them more effectively.

European Union

28. The EU's Distributed Ledger Technology (DLT) Pilot Regime illustrates how controlled experimentation can address legal barriers to innovation in financial market infrastructure. It enables authorised operators to test DLT-based securities trading and settlement through specified exemptions accompanied by safeguards and activity limits. Its closest UK counterpart is the joint Bank of England-FCA Digital Securities Sandbox (DSS). ESMA's June 2025 review identified practical constraints, including restrictive thresholds, and uncertainty about longer-term operation.
29. The EU experience may offer broader lessons for UK sandboxes. Temporary regulatory flexibility should be accompanied by clear pathways beyond testing - uncertainty about future permissions can deter participation and investment. Sandbox testing limits should be sufficiently restrictive to limit risk but also allowing sufficiently realistic trials to generate useful evidence and encourage firm participation.

Transferable lessons for the UK

30. International experience suggests that the UK should continue to refine its established sandbox arrangements around clearly identified regulatory and market needs. Singapore's differentiated approach illustrates the potential to streamline familiar, comparatively well-understood tests through standard conditions, while retaining bespoke assessment for unfamiliar risks. Pakistan's approach highlights how thematic cohorts can focus experimentation on specific policy questions and encourage firms to develop relevant solutions. These approaches could help UK authorities allocate specialist resources more effectively. Authorities should also consider whether barriers to participation arise from regulatory uncertainty, restrictive testing parameters or wider commercial and infrastructure dependencies that sandbox support alone cannot resolve.
31. Effective support should extend across regulatory boundaries and beyond the testing period. Hong Kong's co-ordination arrangements suggest benefits from a clearly identified lead contact for firms whose propositions engage multiple authorities. Building on existing UK co-operation, this could reduce duplicated engagement and identify dependencies earlier. Australia and the EU also underline the importance of involving authorisation and supervisory teams from the outset and clarifying the requirements for continued operation after testing. Firms should clearly understand the permissions, evidence and safeguards required for wider deployment, before they begin testing.

32. Finally, sandboxes should be assessed by the additional value they create for firms, consumers and the regulatory system. Evaluation should examine whether testing resolves uncertainty, informs guidance or regulatory reform, and supports responsible market entry, alongside the resources required from authorities and participants. Low participation should prompt investigation of demand and design. Findings should inform periodic decisions to retain, adapt or discontinue particular arrangements and be shared where confidentiality permits. Across the UK's innovation support services, innovation offices, guidance and targeted engagement should remain credible alternatives or complementary initiatives, with live sandbox testing reserved for questions that require evidence from controlled experimentation.

Conclusion

33. Regulatory sandboxes can support responsible financial innovation when live testing is needed to resolve uncertainty, assess risks or inform regulatory decisions. Their effectiveness depends on clear objectives, adequate resources, proportionate safeguards and credible pathways beyond testing. For the UK, continued international exchange is essential to building on its pioneering role and keeping its approach responsive to changing technologies and market needs. Learning from successes and challenges across other jurisdictions - and adapting relevant lessons - can strengthen regulatory outcomes and improve the support available to firms. Fii encourages authorities to consider sandboxes alongside innovation offices, guidance and proportionate changes to rules, authorisation and supervisory processes, choosing the approach best suited to the problem and most likely to deliver public benefit.

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